Iso Mines Limited

Annual Report 1977

The Annual Meeting of Shareholders will be held at the 3rd Floor, The Board of Trade, First Canadian Place, Toronto, at 9:30 a.m., March 14th, 1978.

To the Shareholders:

Construction on the Afton project continued throughout the fiscal year, and the first copper concentrate was produced on December 9, 1977. Iso holds 867,968 shares or 23% of Afton Mines Ltd., and is the second largest shareholder of that company.

Afton is the second major new Canadian mine in which Iso has been involved, the first being the Mattagami mine in Quebec. It is a particularly noteworthy achievement because this is one of the few new mines to come into production in Canada in recent years, and the first new copper producer in western Canada in five years.

Open pit preparation by Afton crews began in April 1977, after initial stripping by a contractor. By the fiscal year end, 6,095,000 tons of material had been removed from the pit area and the mine was in shape to provide ore continuously to the mill. The tonnage moved in this period included 3,932,000 tons of overburden, 1,722,000 tons of waste rock and 441,000 tons of ore.

Construction of the concentrator, smelter and ancillary buildings proceeded well, although some time was lost due to jurisdictional disputes between trade unions involved in hooking up instrumentation.

The concentrator has now been completed and has been operating on a tune-up basis since December 9. A total of 137,856 tons of ore grading 0.76% copper was milled in December. Production was 988 tons of flotation concentrate grading 53% copper and 210 tons of gravity concentrate grading 75% copper, with recovery of 67%. Recovered gold and silver amounted to $1.96 per ton of ore milled.

Production in January averaged 7,400 tons per day for a total of 222,282 tons grading 0.90% copper. This resulted in 3,250 tons of flotation concentrate grading 40.5% copper and 451 tons of gravity concentrate grading 74.9% copper, and recovery had improved to 82.3%. Rated plant capacity and recovery are 7,000 tons per day and 87%, respectively.

The smelter is in the final stages of construction and is expected to start up about the end of March. Concentrate produced in the meantime is being stockpiled.

Construction costs to completion, excluding working capital, are expected to be $85,000,000 Canadian.

Arrangements are under negotiation to increase Afton's bank loan from $75,000,000 to $80,000,000 U.S., and to convert the total to income debentures. Additional financing up to $15,000,000 will be put up as required, by its British customers. The conversion to income debentures would represent a cash saving to the project of about $3.2 million in the first year, through lower interest rates. This is equivalent to about 6¢ per pound of copper to be produced, an important saving in these difficult times of weak copper prices.

The only outside exploration carried out by Iso in 1977 was work required to keep properties in good standing. This includes our copper properties in Arizona, the Twin Bridges project in Montana, in which we have a 50% working interest, and a Nevada fluorite prospect. The Copper Canyon prospect in Nevada was optioned during the year to the Cities Service Company, which may acquire outright ownership for a cash payment of $3,000,000.

Since the year end, the Company disposed of its shareholding in Dumagami Mines Limited for a net consideration of $191,000.

On behalf of the Board

N. B. Keevil Jr., President

February 2, 1978

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1977

ASSETS

	1977	1976
	$	$
Current Assets		
Cash	1,234	1,125
Accounts receivable	2,000	–
Prepaid charges	162	284
Marketable securities (note 2)	116,285	116,285
	119,681	117,694
Investments in and advances to associated and other companies (note 3)	10,189,655	10,097,635
Mineral Properties and Deferred Exploration and Administration Expenditures (note 4)	1,215,554	1,277,919
	11,524,890	11,493,248

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Iso Mines Limited as at September 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
October 31, 1977

Coopers & Lybrand
Chartered Accountants

LIABILITIES

	1977	1976
	$	$
Current Liabilities		
Bank loan, secured (notes 2 and 3)	1,594,000	1,336,000
Accounts payable	16,045	13,081
	1,610,045	1,349,081

SHAREHOLDERS' EQUITY

	1977	1976
Capital Stock (note 5)		
Authorized —		
6,000,000 common shares without par value		
Issued and fully paid —		
4,263,033 common shares	2,384,105	2,384,105
Retained Earnings	7,530,740	7,760,062
	9,914,845	10,144,167
	11,524,890	11,493,248

Signed on behalf of the Board

Director

J. H. Wesley, Director

CONSOLIDATED STATEMENT OF EARNINGS
For the Year Ended September 30, 1977

	1977 $	1976 $
Income		
Dividends	1,315	6,250
Expenses		
General and administrative	112,292	121,446
Loss from Operations	110,977	115,196
Mineral properties and deferred exploration expenditures written off	2,250	3,177
Amortization — deferred financing costs	76,920	38,490
	79,170	41,667
Loss Before Extraordinary Items	190,147	156,863
Extraordinary Items		
Gain on sale of marketable securities	—	(52,947)
Write down of investments	39,175	—
	39,175	(52,947)
Net Loss for the Year	229,322	103,916
Loss per Share before Extraordinary Items	0.045	0.040
Loss per Share after Extraordinary Items	0.054	0.027

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Year Ended September 30, 1977

	1977 $	1976 $
Balance – Beginning of Year	7,760,062	7,863,978
Net loss for the year	229,322	103,916
Balance – End of Year	7,530,740	7,760,062

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended September 30, 1977

	1977 $	1976 $
Source of Funds		
Proceeds from issue of shares	–	750,000
Gain on sale of marketable securities	–	52,947
	–	802,947
Use of Funds		
Loss from operations	110,977	115,196
Investments in and advances to associated and other companies	131,195	148,424
Exploration and administration expenditures	16,805	769,220
	258,977	1,032,840
Decrease in Working Capital	258,977	229,893
Working Capital Deficiency – Beginning of Year	1,231,387	1,001,494
Working Capital Deficiency – End of Year	1,490,364	1,231,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 1977

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the company's subsidiaries, Iso Explorations Ltd. and Iso Nevada Limited. Inter-company transactions and year-end account balances have been eliminated on consolidation.

The accounts of the U.S. subsidiary, Iso Nevada Limited, have been converted into Canadian dollars as follows:

(a) Deferred Expenditures — at the rates prevailing at the date incurred.

(b) Current Assets and Liabilities — at the rate prevailing at September 30, 1977.

(c) Expenses — at the average rate prevailing throughout the year.

Investments

Interest charges on money borrowed to finance major investment purchases are capitalized against the cost of the investment.

Mineral properties and deferred exploration and administration expenditures

The amounts shown for mineral properties and deferred exploration and administration expenditures represent costs to date less amounts written off and do not necessarily reflect present or future values. These amounts are written off at such time as the project is abandoned. Interest charges on funds borrowed to finance major projects are capitalized against that project.

The deferred financing costs (notes 4 and 9) represent costs to date less amortization provided on a straight-line basis over the period of the financing agreement which is from April 1, 1976 to December 31, 1985.

2. MARKETABLE SECURITIES

Marketable securities are stated at cost (market value — \$156,831; 1976—\$244,245). The marketable securities are pledged as collateral security for the bank loan.

3. INVESTMENTS IN AND ADVANCES TO ASSOCIATED AND OTHER COMPANIES

	September 30, 1977		September 30, 1976	
	Book Value $	Market Value $	Book Value $	Market Value $
Quoted Shares	9,919,096	5,545,832	9,787,904	5,606,444
Unquoted Shares	268,599		307,771	
Advances	1,960		1,960	
	10,189,655		10,097,635	

The investments in associated and other companies are not temporary investments. The total market value of all shares included in investments may not necessarily reflect the present or ultimate value of these holdings which may be more or less than indicated by cost or market quotations.

Certain of the investments are pledged as security for the bank loan.

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION AND ADMINISTRATION EXPENDITURES

Mineral properties and deferred exploration and administration expenditures are carried at cost, less amounts written off, and consist of the following:

	$
Arizona	294,659
Macamic	125
Twin Bridges — Montana	201,362
Copper Canyon	20,539
Rawhide	1,076
Spring Valley Fluorspar	41,835
Waterloo project — Montana	3,485
Iron Mountain	1,228
Magusi River	1
Deferred administration expenses	16,654
Deferred financing costs (notes 1 and 9)	634,590
	1,215,554

5. CAPITAL STOCK

There are options outstanding to a director on 20,000 common shares of the company's capital stock at a price of $1.97 per share. The options expire November 4, 1979.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid during the year to directors and senior officers of the company was $7,000 (1976–$7,000).

7. INCOME TAXES

There are no income taxes payable for the year. The company has accumulated deferred expenditures in the amount of approximately $3,520,000 which are available to reduce taxable income in future years.

The company also has loss carry forwards for income tax purposes of $1,279,000 which expire as follows:

	$
1978	321,000
1979	325,000
1981	313,000
1982	320,000

8. ANTI-INFLATION ACT

The company is subject to restraint of profit margins, prices, compensation and dividends under the terms of the Anti-Inflation Act and Regulations.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The company and Teck Corporation Limited have jointly and severally provided a completion guarantee for construction of a mine mill and smelter operation of Afton Mines Ltd. (N.P.L.).

In addition, they have agreed to provide funds for repayment of certain bank loans to Afton Mines Ltd. (N.P.L.) in the event that the cash flow of the Afton project is insufficient to meet scheduled repayments, up to a maximum of $25,000,000.

There are provisions whereby this $25,000,000 commitment reduces as repayments of the bank loan are made.

A $15,000,000 line of credit from Afton's customers may be be drawn upon, if necessary, to satisfy the completion and deficiency guarantees. To the extent that this line of credit is utilized, the company's and Teck's obligations are reduced.

The company has paid a fee of $750,000 to Teck as consideration for Teck providing the company's portion of $10,000,000 of collateral to the banks and a provision for additional collateral if more than $5,000,000 of the line of credit from the customers is utilized. This has been disclosed in the financial statements as deferred financing costs.

DIRECTORS
W. R. Bergey
R. A. Cranston, Q.C.
J. C. Frantz
N. B. Keevil Jr.
G. C. McCartney
A. C. Nixon
J. H. Westell

OFFICERS
N. B. Keevil Jr., President
W. R. Bergey, Vice-President, Exploration
J. H. Westell, Vice-President and Treasurer
W. H. Maedel, Secretary
J. D. Munroe, Assistant Secretary
D. S. Brown, Assistant Secretary
W. J. Baird, Assistant Treasurer

HEAD OFFICE
Suite 4900, Box 49, Toronto-Dominion Centre
Toronto, Ontario M5K 1E8

TRANSFER AGENTS AND REGISTRARS
Guaranty Trust Company of Canada
Toronto and Vancouver

AUDITORS
Coopers & Lybrand

PRINTED IN CANADA